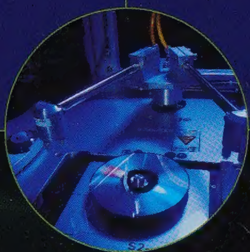
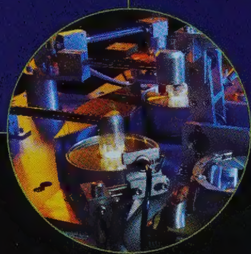
cinram

1999 Annual Report

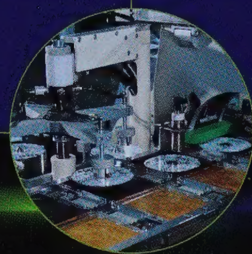
www.cinram.com/iar



DVD

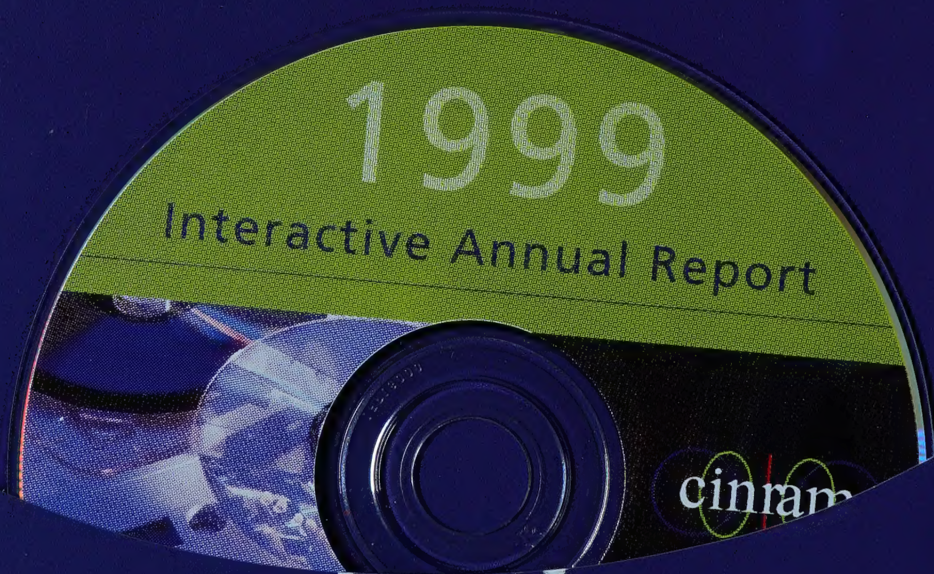


Audio CD



CD-ROM

Video Cassettes



Your Passport to the Internet

Use the dynamic link on this CD to connect to
the Cinram 1999 Online Interactive Annual Report (IAR)

This year, for the first time, Cinram has created a revolutionary, web-based **Interactive Annual Report.** Included in your copy of the 1999 report is a CD-ROM that contains an innovative, dynamic introduction to the interactive version and a hyperlink **(www.cinram.com/iar)** to the actual report.

Featuring simple navigation and point-and-click usability, the Interactive Annual Report leverages the latest technology to create an interactive, rich graphical alternative for our target audiences to use to access our information. Cinram is pleased to be able to provide this creative and powerful new experience for Cinram's valued shareholders.

Cinram – The International Multimedia Company

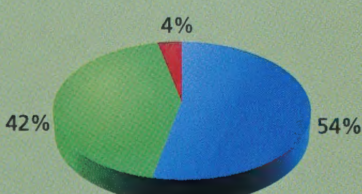
Cinram International Inc. is one of the world's largest independent providers of pre-recorded multimedia products and services, and custom order downloadable and optical disc digital content.

With facilities in Canada, the United States, Europe and Latin America, Cinram manufactures and distributes pre-recorded VHS video cassettes, audio cassettes, music CDs, CD-ROM and DVD for motion picture studios, music labels, publishers and computer software companies around the globe. Cinram's shares are listed on The Toronto Stock Exchange under the symbol CRW and on NASDAQ under the symbol CNRM.

Customer Credo "Our customers' success is our success. We are a leader by providing our customers with what they want, when they want it, how they want it, and at the right price."

Product Contribution to Total Sales

(in $ thousands)



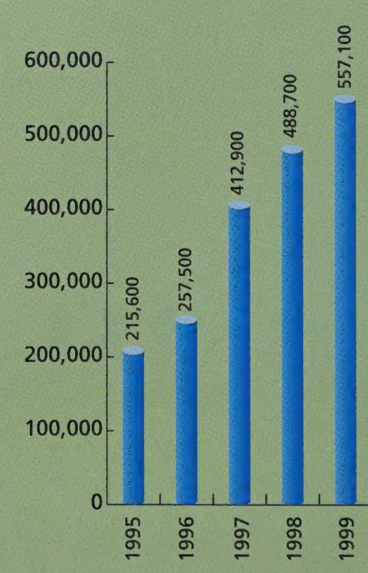
Audio/Rom	$	349,900
Video	$	271,100
Other	$	24,500
Total	**$**	**645,500**

Sales Highlights 1999 vs. 1998

DVD ($)	up 86%
CD ROM ($)	up 27%
Audio CDs ($)	up 18%
Audio cassettes ($)	down 7%
Video cassettes ($)	down 11%

Total Pre-recorded Multimedia Unit Sales

(in thousands)



FINANCIAL HIGHLIGHTS

(Stated in thousands of Canadian dollars, except per share amounts)

Two years ended December 31,	1999	1998	% change
INCOME STATEMENT			
Net sales	$ 645,539	$ 642,714	-
Gross profit	164,202	155,638	+6%
Amortization	58,575	58,177	+1%
Earnings before interest expense, investment income, unusual items and income taxes	82,087	71,741	+14%
Earnings before unusual items	79,494	66,552	+19%
BALANCE SHEET			
Cash, cash equivalents and marketable securities	349,390	322,563	+8%
Bank operating loans, long-term debt and obligations under capital lease	255,102	284,817	(10%)
Capital expenditures	70,510	59,571	+18%
Working Capital	208,196	197,319	+6%
Shareholders' Equity	413,420	433,063	(5%)
Earnings Per Share before Unusual Items*			
Basic	$ 0.85	$ 0.71	+20%
Fully Diluted	$ 0.81	$ 0.70	+16%
Earnings Per Share			
Basic	$ 0.33	$ 0.71	(54%)
Fully Diluted	$ 0.32	$ 0.70	(54%)
Fully diluted average number of shares outstanding	62,348	61,025	+2%

**not in accordance with GAAP, however management feels this is useful information for readers*

Net Sales

(in $ thousands)

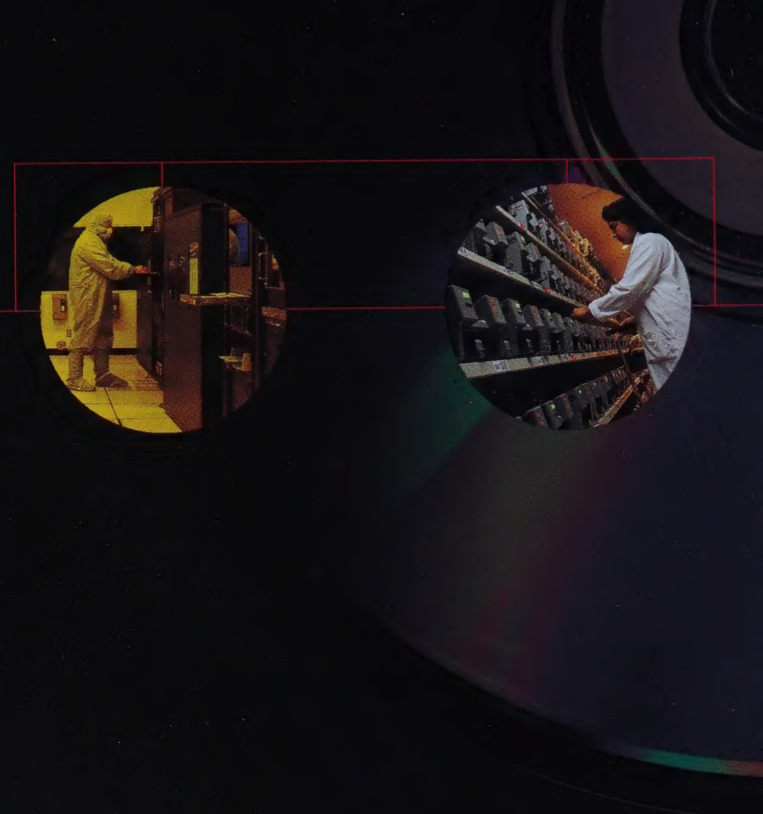
Cash Flow from Operations

(in $ thousands)

Basic Earnings per Share

Per share data based on 2 for 1 stock split February 1998

**before unusual items*



Letter to Shareholders

CINRAM INTERNATIONAL INC. HAS SUCCEEDED over the last three decades by remaining on the leading edge of a relentless wave of changing technology – and 1999 was no exception. It was another year of impressive advances that saw the Company consolidate operations and enhance capabilities to aggressively expand the scope of its products and services.

The Company turned in another solid financial performance, with consolidated sales for the year reaching $645.5 million in 1999, up slightly from $642.7 million in 1998. Earnings before interest, taxes, amortization and unusual items were $140.7 million, up from $129.9 million in 1998. Net earnings before unusual items for the year were $49.9 million or $0.85 per share, an increase from 1998 net earnings of $42.3 million or $0.71 per share. Net earnings were $19.3 million or $0.33 per share, compared to $42.3 million or $0.71 per share for 1998.

CD shipments for 1999 in North America were unprecedented in Cinram's history and came, ironically, amid concerns by some that downloading music from the Internet will hurt business. DVD unit shipments more than doubled over 1998 volumes.

The Company took steps to maintain its status as an industry leader amid continuing technological advances and the emergence of e-commerce. Important new facilities were added, new European headquarters were opened in London, and capacity was expanded in North America.

Cinram, with 11 major facilities now serving more than 6,000 customers, invested $71 million in capital expenditures in 1999 for key projects that included expansion of DVD capacity at the Anaheim, California plant plus establishment of state-of-the-art DVD and CD capabilities in Europe, and DVD in Canada. CD production capacity was expanded at all five North American CD facilities.

The U.S. was the biggest contributor to revenues and profitability and now represents the greatest opportunity for growth. Cinram today is one of the leading players in the U.S. market and is positioned to compete and grow in exciting new ways. Cinram's success in the U.S. has developed over time and, in the same manner, improvements in Europe are expected to continue through dedicated efforts and long-term planning. The Company in 1999 took a one-time $31 million charge related to restructuring of European operations, including a writedown of capital assets and goodwill. By reducing excess capacity and equipment, lowering staffing levels and improving efficiencies, savings of approximately $5 million a year are anticipated. Cinram is now expected to make solid gains in Europe.

In the exploding e-commerce sector, Cinram announced two strategic e-business initiatives, entering into separate agreements with MP3.com Inc. and BroadCast Software Corp. Cinram is providing manufacturing and distribution of custom online CD music compilations from the popular MP3.com Internet site.

The Company's joint venture with BroadCast Software allows Cinram to provide innovative distribution and marketing solutions to downloaders and distributors of audio, video and computer software. These two initiatives provide a strong start to Cinram's evolving e-commerce strategy and further strengthen Cinram's expertise and leadership in just-in-time delivery.

IN 1999, CINRAM also centralized its information technology systems onto a single IT platform to improve efficiency and communication both within the organization and with customers around the world.

Cinram has remained deeply involved in the evolution of pre-recorded multimedia. Starting from our manufacturing of eight-track cartridges, to the production of vinyl records, audio cassettes, VHS video cassettes, CDs, CD-ROM and DVD, Cinram has maintained its edge in the marketplace by anticipating change and moving ahead.

Judging from Cinram's stock performance in 1999, there is concern amongst investors that digital downloading of music and video over the Internet and other digital distribution channels is threatening our business. The perception that one distribution channel will completely replace another, is mistaken. The Company believes that emerging distribution channels such as the Internet will increase, rather than diminish, sales of physical CDs, videos and DVD in coming years, as the medium will make more product available to a wider audience. The Internet and

e-commerce will certainly change the way music and video is sold and delivered, and Cinram's strategy is to move strongly toward these new opportunities.

CINRAM POSTED impressive results during 1999, as multimedia unit shipments increased 14% to 557 million units from 489 million units in 1998. In addition, the Company was able to increase its cash position during 1999, with strong cash flow from operations. Cinram continues to have a healthy balance sheet and net cash, (which consists of cash, cash equivalents and marketable securities less bank operating loans, long-term debt and capital lease obligations) increased to $94 million as a result of earnings generated during 1999.

In 1999, Cinram commenced a normal course issuer bid and by the end of February, 2000, repurchased 5.5 million shares or approximately 10% of outstanding shares. For the fourteenth consecutive year, the Company also declared an annual dividend in early 2000, amounting to $0.08 per common share.

IN NORTH AMERICA, Cinram's aggressive growth strategy led to a stellar performance in 1999. Geographically, Cinram was strongest in the United States, while revenue in Mexico also improved. North American revenue increased to $471 million from $439 million in 1998. Soft video sales in 1999 were more than offset by strong sales in optical disc products. North American CD shipments during 1999 hit their highest level in the Company's history. In both CD and DVD production and sales, the outlook is for continued gains, driven to an increasing degree by the force of the Internet as a marketing and distribution outlet. Falling prices on DVD players, and the PC industry's commitment to this format, should also contribute to higher sales going forward.

Facilities were expanded in 1999 to improve operational efficiencies and enhance our already high level of customer service. Cinram in 1999 exercised its option in Huntsville, Alabama to purchase that operation's land and building, setting the stage for significant future expansion of this facility. Three plants now serve the U.S. market, each designated for specific functions and focusing on core strengths.

In Canada, new state-of-the-art CD molding equipment will provide additional capacity and improve turnaround times, while the addition of DVD capability at the Toronto plant is expected to create more growth opportunities as DVD gains popularity.

Cinram in 1999 became the first Company to earn the International Recording Media Association's prestigious "IRMA Anti-Piracy Certificate of Compliance," an industry initiative intended to establish a systematic way to deter piracy, thus insuring the interests of the content owners and the replication industry.

IN THE CHALLENGING EUROPEAN MARKET, Cinram set the stage for steady improvement in 2000 and beyond. Revenue for 1999 was $174 million, compared to $204 million in 1998. Video cassette sales were soft industry-wide, partly reflecting the lack of megahit releases on video. The addition of CD and DVD capabilities in Europe is expected to add balance to a region that has been solely reliant on video sales.

The Company secured significant new business in 1999, and renewed existing contracts with major customers. Deals signed or renewed in 1999 now make Cinram one of the largest duplicators in Europe.

Restructuring in Europe required a $31 million one-time charge that included a provision for the reduction of headcount and the writedown of goodwill and capital assets. Cinram will continue with rationalization to improve efficiencies and service as well as cash flow and earnings.

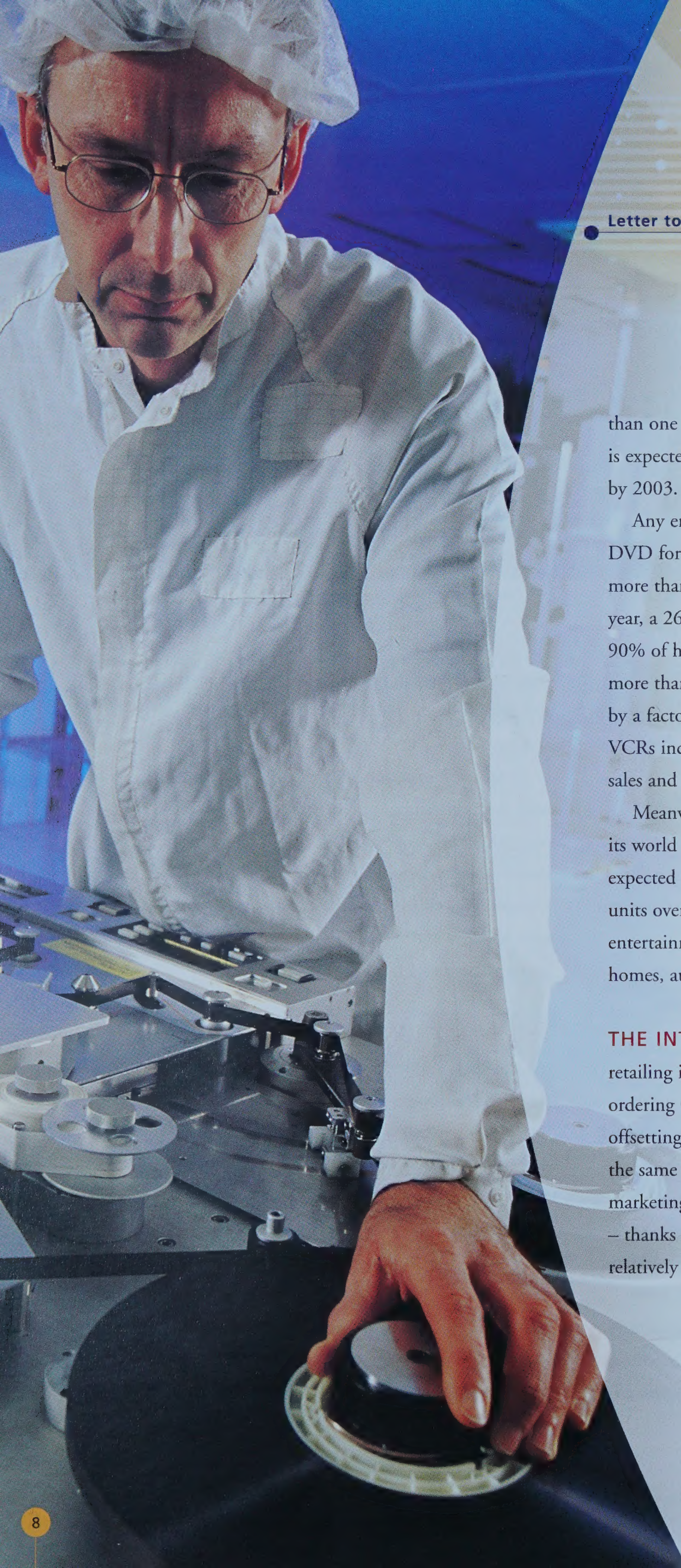
The Company put in place a centralized pan-European organization that is based in new headquarters in London. Cinram's new European structure is designed to support continental expansion of the Company's "one-stop" service. Europe now provides a full range of physical media replication and duplication services and distribution. Cinram's strengthened management team will lead the Company's ambitious drive into DVD replication and direct distribution across Europe.

New CD and DVD production facilities in the Netherlands began shipping product in the first quarter of 2000. In addition, Cinram acquired a DVD authoring centre in France in 1999. The Company's strategy is to continue to expand capabilities in Europe, where DVD is poised to take off, particularly in the key markets of the U.K. and France. The Company will continue to increase capacity, and the sales and marketing force will make strategic efforts to aggressively grow these product lines in 2000 and beyond.

Integration in Europe moved closer to completion in 1999 with the establishment of a "transparent manufacturing" policy that connects European facilities with the rest of Cinram's international operations through a sophisticated IT network. Cinram's multiplant network was several years in the making and now provides new levels of responsiveness and flexibility in customer service and direct distribution.

THE EVOLUTION OF TECHNOLOGY continued to speed ahead in 1999, particularly as it relates to DVD and to the Internet. Projections are for continued spectacular growth in the DVD sector. Worldwide DVD player sales reached 5.1 million at the end of 1999 and the U.S. market represents about 80% of that – or four million units. Adoption rates for DVD-video have far surpassed those of VCR and CD technology and DVD-video should continue to gain popularity.

There were about 5,500 DVD-video titles available at the end of 1999 in the U.S. and predictions are for 8,500 titles by the end of 2000. The number of DVD manufactured in the U.S. is expected to grow from about 125 million discs in 1999 to more



than one billion in 2003, and DVD-video production in Europe is expected to grow from six million units to 240 million units by 2003.

Any erosion of the VCR and video cassette market as the DVD format takes off should be modest in the short term as more than 27 million VCRs were shipped in North America last year, a 26% increase over the prior year. In North America, about 90% of homes now have a VCR, and one in five homes have more than one VCR. VCR units continue to outsell DVD players by a factor of four-to-one. The huge household penetration of VCRs indicates that there is some room yet for growth in video sales and rentals.

Meanwhile, the familiar compact disc will continue to hold its world leadership in music, with replication of music CDs expected to hit 4.3 billion for 2000, an increase of 105 million units over 1999. Among the factors that favor CDs for music entertainment is the huge installed base of CD players now in homes, automobiles and businesses.

THE INTERNET AS A NEW distribution channel for retailing is expected to expand sales, with the number of shoppers ordering CDs from vast and growing Internet catalogs more than offsetting the sales impact of downloading by consumers. At the same time, CDs hold great promise as an increasingly popular marketing tool – especially among Internet companies – thanks to embedded links directing users to the Web, plus the relatively inexpensive cost of using CDs for promotions.



The state of physical product is healthy and should only improve through e-commerce and the Internet's reach. Digital downloading is gaining popularity but it appears that while more consumers are downloading music from the Internet, they are also continuing to buy at least as many music CDs as they have in the past. Market research indicates that revenue from digital downloading will represent less than 6% of online music sales by 2003.

It is worth noting that Cinram saw music CD revenue increase by 18% in 1999, and that CD music sales accounted for 28% of Cinram's total revenue, an increase from 24% in 1998.

CINRAM MADE ITS FIRST significant e-business announcement when it entered into a strategic alliance with MP3.com, Inc., the Internet's premier online digital music destination. Cinram will provide long-term exclusive worldwide manufacturing and fulfillment services to MP3.com, which has invested approximately $20 million in Cinram.

The alliance opens new market and revenue opportunities. Using Cinram's proprietary software and technology to produce custom CDs, music fans in North America and Europe can now purchase specialty compilations of music via the Internet that are manufactured onto compact discs, then shipped directly to customers within 48 hours. These custom discs are not available at retail outlets.

THE COMPANY also entered into an agreement with BroadCast Software Corp., a leading developer of electronic content sales and distribution (ECSD) technology that protects digitized copyrighted material from unauthorized distribution.

The deal makes Cinram the sales and marketing agent of BroadCast's technology. Cinram and BroadCast established a joint venture to provide innovative distribution and marketing solutions to downloaders and distributors of audio, video and software.

BroadCast's "secure" ECSD technology enables media publishers and distributors to compress and lock content residing on Web servers and physical media.

Using this technology, a customer can obtain electronic files or discs containing a limited sampling of content (music or games, for example) and then access additional content by purchasing an "unlock" code. Cinram feels strongly that many of its existing clients will adopt this technology.

WHILE THE INTERNET is creating exciting opportunities that will continue to emerge in the medium term, demand for physical product – CDs, DVD, video cassettes – is alive and well and is expected to remain so for the immediate future. The current migration to DVD by consumers, for example, should benefit Cinram by creating new growth, just as with the shift from records to CDs.

Consumers will continue to "build" permanent video and CD – and now DVD – libraries to enjoy the shopping experience that these physical products offer. Gift-giving of these products is a key driver of sales in the industry and this aspect of buying will also play into the continued popularity of CDs, videos and DVD. Market research indicates that consumers who rely on free downloaded product are not regular buyers of physical product – they are the same consumers who copied music onto blank cassettes, and they have now migrated to the Net.

Downloading of music and video will grow but for the immediate term at least, it will be limited by consumers' preference for the portability and functionality of physical product, and by the obstacles of available bandwidth and ongoing industry efforts to limit piracy and illegal copying and distributing of recordings.

At the same time, the Internet, with its immediate access to current releases and back catalog items, offers selection that bricks-and-mortar retailers cannot match with their limited shelf space.

Cinram has positioned itself to be a major player as new online opportunities emerge. The Company today has the capability to deliver large or small quantities of product very quickly through multiple channels, and is continually exploring new business-to-business and direct-to-consumer relationships.

Future distribution methods by Cinram will include the compiling of an array of content onto regional servers, providing instant access to customers through traditional delivery methods of physical product or by downloading.

CINRAM IN 1999 continued its efforts to advance the performance and flexibility of its global IT systems, which now support customer operations from the sales order stage through to fast and efficient delivery of products internationally. With the advance of e-commerce, distribution capabilities will become even more crucial for Cinram in meeting the evolving needs of customers. IT systems, traditionally a provider of information to run the business, are now a leading driver of business within a "virtual factory" model, thanks to the Internet. A significant number of Cinram customers migrated from traditional EDI systems to Internet based delivery in 1999.

Last year marked the completion of efforts to convert the balance of Cinram's 1997 acquisitions onto the standard Cinram business systems and network solutions. All eleven manufacturing sites and support operations are now using the same state-of-the-art hardware and software systems.

During 1999, the Company's newly formed e-commerce group launched its first customer based e-business solution which was made available to more than 150 leading customers. This Internet-based system is providing fast, direct, real-time access to order, inventory and delivery information.

For 2000 – after three years of bringing enterprise systems to the same level – Cinram is perfectly positioned to extend its technology integration. The Company plans to release a significant extension to its Internet based systems, in which customers will be able to access customized data marts for all of their information needs. Far beyond the original release, the scope of the database will be all-inclusive so that customers can operate virtually independent of Cinram's support personnel.

CINRAM TODAY IS POISED to grow and actively pursue the changing dynamics of the industry. The North American market is growing strongly and should continue to expand. In Europe, meanwhile, Cinram is positioning itself to match the success achieved in the U.S. and Canada, with state-of-the-art facilities and streamlined operations in place. Of course, our success on all fronts would not be possible without the dedication of the more than 3,000 employees who keep the Company moving forward. I take this opportunity to thank each of them for their hard work and commitment to making Cinram a leading global multimedia provider. I also extend thanks to our valued customers as we look forward, together, to forging new relationships and exploring opportunities in a new age.

Isidore Philosophe
Chairman and Chief Executive Officer

Product Highlights

For 1999, revenue from the **AUDIO CD / CD-ROM** replication/duplication segment, including audio cassette revenue, far exceeded expectations and accounted for 54% of total revenue, up from 48% in 1998. Revenue from this segment increased 12% to $349.9 million from $311.4 million in 1998.

AUDIO CASSETTE revenue eroded industry-wide but Cinram managed to outperform the industry and increase market share in this sector. Volumes were up but revenues declined amid lower prices. Revenue was $76.9 million, compared to $83.0 million in 1998. While industry sales of music cassettes have been declining since about 1991, spoken word products on tape, such as audio books and self-help products, have been gaining popularity. Market research indicates that this segment is now more than twice the size of music cassettes and will continue to show growth in 2000.

VIDEO revenue was lower than expected industry-wide during 1999, in part the result of the lack of any blockbuster movie hits to match releases like 1998's *Titanic*. Revenue declined to $271.1 million in 1999 from $303.8 million in 1998. The video segment accounted for 42% of consolidated revenue, compared with 47% in 1998.

DVD is clearly one of the most exciting new areas of the industry and Cinram continues to take strides to expand its capabilities in that sector. DVD is poised to explode in popularity and Cinram's outlook is to double or triple sales during 2000.

FISCAL 1999 COMPARED TO FISCAL 1998

Overview

The Company reported solid financial results in 1999 with strong growth in our music CD and CD-ROM business partially offset by a weak VHS video cassette market. In addition, the Company substantially streamlined its operations, expanded its cutting-edge facilities and forged key deals in the exciting e-commerce sector.

North American sales improved, led by exceptional gains in the United States. Music CD and CD-ROM revenue far exceeded expectations, despite fears by some that downloading of music on the Internet poses a threat to Cinram's core business.

Consolidation was the focus in Europe, where Cinram took a non-recurring restructuring charge in 1999 amid a disappointing financial performance. The Company took a one-time $31 million charge in 1999 related to restructuring European operations, including a writedown of capital assets and goodwill. By writing down excess capacity and equipment, lowering staffing levels and improving efficiencies, cash and non-cash savings of approximately $5 million a year are anticipated.

Cinram's balance sheet remains strong. At the end of 1999, the Company had cash, cash equivalents and marketable securities totalling $349 million, an increase from $323 million a year ago. The net cash balance after adjusting for bank operating loans, long-term debt and obligations under capital lease, increased to $94 million in 1999 from $38 million in 1998.

Revenue

For the year ending December 31, 1999, consolidated revenue was relatively flat at $645.5 million, compared with $642.7 million in 1998.

Although total multimedia unit shipments were up 14% from the prior year, this was mostly offset by a shift in product mix from higher-priced VHS video cassettes to lower-priced music CD and CD-ROM products. In addition, the average selling price for CD products declined as the sales mix shifted towards a greater proportion of bulk product. Nevertheless, North American revenues improved significantly, led by strong CD and DVD sales. CD shipments for 1999 in North America hit their highest level in Cinram's history, while DVD shipments more than doubled over 1998 volumes. Meanwhile, revenue in Europe was hurt by weaker VHS video cassette sales.

Geographic Segments

North America

North American revenue rose 7% to $471.3 million from $438.8 million in 1998. Sales in optical disc products for 1999 rose significantly. DVD revenue increased by 86% over the prior year, reflecting a higher volume of shipments but also a decline in the average selling price for DVD. Although DVD sales posted significant growth and are expected to continue to experience solid gains for 2000, DVD revenue still represents a relatively small percentage of total revenues. Music CD revenue increased an impressive 18% year-over-year, fuelled by gains in Canada, the U.S. and Mexico. CD-ROM revenue grew by an impressive 27% in 1999, with gains both in the U.S., the largest market in the world, and Canada.

For both CD and DVD production and revenue, the outlook is for continued gains. Falling prices on DVD players, and increased availability of titles, should help drive growth.

VHS video cassette sales improved in the U.S., partially offsetting softer sales in Canada and Europe. The Company commenced its VHS video cassette business in the U.S. in 1998 and sales there continued to be strong through 1999, as revenue increased by 30%.

Audio cassette sales eroded industry-wide but Cinram sustained sales levels as a result of new supply agreements in North America. Cinram's audio cassette revenue declined by 7% globally, much less than the industry average. Revenue decreased in Canada, but increased in the U.S. and Mexico.

Europe

Revenue in Europe for 1999 was $174.2 million, compared with $203.9 million in 1998. VHS video cassette sales were soft industry-wide, partly reflecting the lack of megahit releases on

video to match previous years. Major European contracts were signed or renewed to position Cinram for future growth in this key market. The addition of optical disc capabilities in Europe is expected to add balance to a region that to date has been reliant on video sales.

The Company's strategy is to continue to expand capabilities in Europe. New CD and DVD production lines in the Netherlands began shipping at the start of 2000 and Cinram acquired a DVD authoring centre in France in 1999. Europe now provides a full range of services that includes video cassette duplication, DVD authoring and replication, CD-ROM and CD audio replication and audio cassette duplication, along with distribution and other related services.

Industry Segments

Audio/ROM replication/duplication, consisting of audio CD, CD-ROM and audio cassette, continues to be the strongest segment, accounting for 54% of consolidated revenue, up from 48% in 1998. Revenue from this business segment rose 12% to $349.9 million from $311.4 million in 1998. This segment continues to dominate and drive revenue gains.

While the audio cassette market has declined by about 15% annually in recent years, the Company's audio cassette revenue decreased by only 7% to $76.9 million from $83.0 million in 1998. Although this market is eroding, Cinram has continued to maintain margins and increase market share thanks to new and existing supply agreements in North America and Europe.

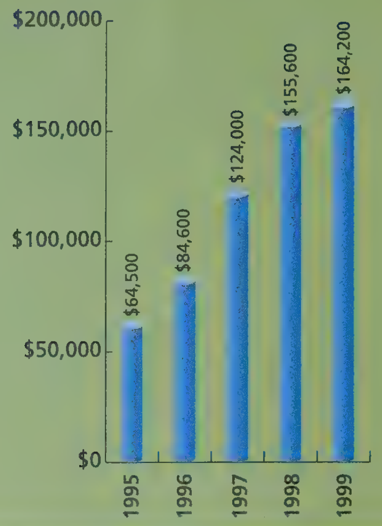
The video duplication segment, consisting of VHS video cassette duplication, accounted for 42% of consolidated sales in 1999, down from 47% in 1998. Consolidated VHS revenue was $271.1 million, compared to $303.8 million in 1998, following weaker VHS revenue in both Canada and Europe.

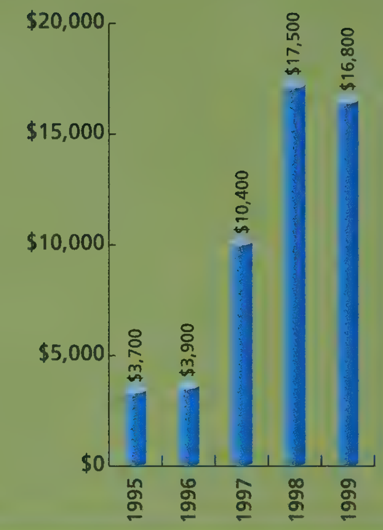
DVD revenue (included in other revenue) was up 86% from 1998.

Gross profit

Gross profit increased by $8.6 million to $164.2 million, up 6% from $155.6 million in 1998. Gross profit, expressed as a percentage of revenue, was 25%, compared to 24% in 1998, with improved efficiencies realized primarily throughout the North American plants, more than offsetting an overall decline in average selling prices.

In the U.S., gross profit increased significantly as shipments increased across all media products, especially VHS video cassettes and DVD, both of which provide higher margins on a per unit basis. In Europe, rationalization initiated in 1998 helped offset the impact of lower volumes and lower average selling prices experienced throughout the competitive European market. Amortization expense from capital assets, excluding the writedown of capital assets and goodwill, remained relatively consistent with the prior year at $50 million in 1999, down from $53 million in 1998.





Selling, General and Administrative

Selling, general and administrative expenses declined from $74.2 in 1998 to $71.8 million in 1999.

In the prior year, the Company incurred non-recurring IT expenditures related to Y2K compliance and systems conversion. IT personnel that were dedicated to Y2K compliance and systems conversion will now be redirected toward e-commerce initiatives. In addition, the prior year figure includes unfavorable foreign exchange costs due to the decline in the Canadian dollar during 1998.

As a percentage of sales, selling, general and administrative expenses improved to 11% in 1999 from 12% in the prior year.

Goodwill

Normalized goodwill amortization increased significantly to $8.7 million in 1999, up from $5.2 million in 1998. In addition, during the fourth quarter, management determined it was necessary to write down the carrying value of goodwill associated with acquisitions made in Europe during 1997. As a result, the remaining goodwill on the balance sheet has been reduced from $39.8 million at December 31, 1998 to $19.3 million at December 31, 1999.

Research and Development

Research and development costs declined to $1.6 million in 1999, compared to $4.5 million in the prior year, as significant expenditures required to improve the DVD manufacturing process were incurred in 1998. Furthermore, the comparative 1998 figure includes approximately $2.0 million of research and development costs incurred by Trace Optical, the assets of which were sold in January, 1999.

Interest Expense

Interest expense was $16.0 million in 1999, compared to $16.5 million for 1998. Total debt, including bank operating loans, long-term debt and capital lease obligations decreased to $255.1 million at December 31, 1999, compared to $284.8 million in 1998. As the Canadian dollar has strengthened relative to foreign currencies during 1999, the total debt denominated in Canadian figures has decreased accordingly.

Investment income

Investment income decreased slightly from $17.5 million in 1998 to $16.8 million in 1999. Both pre-tax and after-tax earnings in 1999 were affected by a $3.3 million writedown of marketable securities to the lower of cost and market. Cinram's marketable securities consist of highly rated preferred shares and no common equities. Preferred shares provide investment income in the form of non-taxable dividends, resulting in a lower effective income tax rate and higher after-tax yields. Preferred share prices have declined over the past year and to mitigate the risk associated with these preferred shares, the Company reduced its holdings by $76 million during 1999.

Unusual items

In 1999, the Company recorded a non-recurring charge of $31 million associated with restructuring its European operations. One third of the charge, or approximately $11 million, relates to restructuring costs associated with reducing headcount levels in each of the European locations, and lease cancellation payments.

The second component of the restructuring charge relates to a writedown of carrying value of capital assets of approximately $11 million. Over the past year, Cinram has recognized that due to excess capacity in Europe, a sufficient amount of its capital assets are not being used throughout the entire year. As the busy fall season in Europe has shortened, the Company's assets are underutilized for a portion of the year. Accordingly, management determined it was necessary to write down the net book value of these assets to reflect their expected usage.

The final component of the restructuring charge relates to the $9 million writedown of goodwill, primarily resulting from the 1997 acquisition of Polygram Manufacturing and Distribution Centres in The Netherlands. Given that the competitive European market is currently experiencing industry consolidation, the Company determined that all goodwill relating to European operations should be written off.

Income Taxes

The Company's tax rate, increased to 60.4% in 1999, compared to 36.4% in 1998. The primary reason for the increase is that no tax benefit was recorded on the provision for restructuring and the writedown of the carrying value of capital assets and goodwill, as there is no certainty with respect to the tax utilization of these charges going forward. Accordingly, both pre-tax and after tax earnings were reduced by the $31 million charge for unusual items.

With respect to the 1995 acquisition of Cinram France West (formerly Video Pouce S.A.), loss carryforwards of $24 million were acquired and $16.3 million of that amount was used from 1995 to 1997 to reduce income tax expense in those years. The remaining available balance was challenged by French taxation authorities beginning in 1998 and subsequently, almost all of these loss carryforwards were disallowed in 1999. See note 9 to the consolidated financial statements for more details with respect to the Company's tax position.

Reconciliation with United States Generally Accepted Accounting Principles

The financial statements have been prepared using accounting principles accepted in Canada. However, adjustments must be made to the financial results to conform to U.S. requirements. Note 16 to the consolidated financial statements provides a reconciliation between Canadian and United States generally accepted accounting principles (GAAP).

FISCAL 1998 COMPARED TO FISCAL 1997

Overview – Foundation for growth

For Cinram, 1998 was a year of solid performance and progress. Following the major acquisitions which were the driving force behind the Company's substantial growth in 1997, consolidation and integration were the focus in 1998.

Most of the integration process in the U.S. was completed during 1998 and was a key factor to improved financial performance in this region.

Substantial progress was also made in integrating the European operations in 1998. Using the format from Canada and the U.S. as a template, the VHS manufacturing facility in the U.K. was completely re-engineered, increasing both capacity and efficiency. Information systems, encompassing both the financial and manufacturing aspects, were converted to the Company's common software in both Spain and the U.K.

At the same time, conversion work in France and Holland was started. In France and the U.K., distribution facilities were added, thereby permitting them to offer this important service.

Initiatives in Canada in 1998 focused on increasing Cinram's value to its customers and enhancing the partnership with them in doing business. Highly automated pick and pack systems were installed expanding the capability to do direct-to-retail distribution for our customers. This service offers a cost-efficient

process by reducing order cycle time and inventory and provides a streamlined product flow from production to consumer. These systems use the latest technology to meet the detailed and sophisticated procurement requirements of major retailers.

Revenue

For the year ended December 31, 1998, net sales increased by $129.4 million or 25% to $642.7 million from $513.3 million in the prior year. A full year's inclusion of the Company's 1997 acquisitions accounted for 55% of the increase or $70.7 million. Revenue from the VHS video cassette business in the U.S. contributed 23% to the increase. The remainder of the growth was attributed to stronger CD audio sales in the U.S. combined with an overall increase in VHS video cassette volumes.

Geographic segments

North American revenue increased 19% to $438.8 million from $369.8 million in 1997. The increase in sales was primarily due to the addition of VHS capacity in the U.S. and the inclusion of a full year's activity from the acquisition of DMI. Increased CD business and the early growth of DVD in the U.S. also contributed to the growth in revenue. Latin America sales showed continued strong growth, increasing 39% in 1998 from 1997, adding to the 124% growth experienced in 1997. However, this geographical area accounted for less than 2% of consolidated sales. With the substantial growth in U.S. business, the profile of the Company in North America noticeably changed and the Company decreased its reliance on the Canadian market.

Revenue in Europe increased 42% in 1998 to $203.9 million compared to $143.5 million in 1997. The inclusion of a full year's activity from the four European acquisitions made during 1997 accounts for 76% of the increase. Expansion of the VHS video cassette business in the U.K., facilitated by an improvement in the capacity and efficiency of the Ipswich, U.K. plant, represented 24% of the increase. To a lesser extent, organic growth was experienced in The Netherlands and Spain, while intense competitive pressures in France led to lower volumes in this region. In response to the competitive situation in France, several initiatives commenced during the year to improve the Company's position. Distribution facilities were installed, adding this customer service element. A plant integration plan, similar to that implemented in the U.S., was initiated and an organizational reporting structure was also implemented.

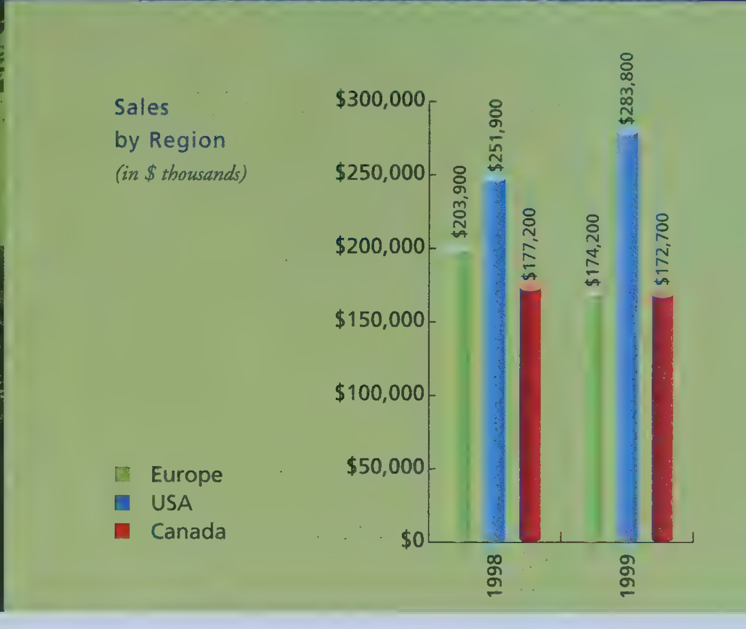
Industry segments

VHS video cassette business grew, fueled by volume from acquisitions and also from organic growth experienced in the U.S. and the U.K. Consolidated VHS revenue increased 30% to $303.8 million in 1998 compared to $233.1 million in 1997. Furthermore, this segment accounted for 47% of consolidated revenue in 1998 versus 45% in 1997.

Revenue from the audio/ROM replication/duplication business segment increased 19% to $311.4 million in 1998 from $260.6 million in 1997, primarily as a result of the DMI acquisition. This segment continued to be a significant contributor to consolidated sales, accounting for 48% of the total in 1998 as compared to 51% in the prior year. During 1998, the Company continued to experience a decline in the average selling price for CDs as a result of competitive pressure and a continued shift in product mix from packaged to bulk CD.

The audio cassette business continued to provide healthy revenue during 1998. Revenue increased 53% compared to the prior period, despite a declining total market for audio cassettes. This growth was largely attributable to the full year's inclusion of revenue from the October 1997 acquisition of the audio cassette business of PolyGram Manufacturing and Distribution Centers B.V. combined with audio cassette supply agreements in North America.

The rapidly increasing popularity and enhanced awareness of the DVD format fueled sales in this business, particularly in the last half of the year as revenue increased significantly over 1997 levels.



Gross Profit

Gross profit increased by $31.7 million to $155.6 million, up 26% from 1997. The increase in gross profit resulted mainly from the corresponding increase in revenue. Gross profit, expressed as a percentage of revenue, remained constant at 24%.

Overall gross profit was adversely impacted by lower selling prices in CDs, CD-ROM and VHS video cassettes, which resulted from competitive pressures. Offsetting the price decline were a number of regional efficiency improvements, combined with higher volumes in both North America and Europe.

The consolidation and integration program that began in the U.S. shortly after the March 1997 acquisition of Disc Manufacturing Inc.'s optical disc manufacturing assets was completed, which led to improved efficiencies and reduced costs. One aspect of the program was the conversion to the Company's integration software system, which facilitated the improvement process. Another component was the re-organization of the U.S. plants, whereby the plant in Indiana was organized and staffed to process large multi-unit orders for large volume clients, while the Alabama facility was equipped to efficiently produce smaller custom orders.

In Europe, higher volume was partially offset by lower average selling prices experienced throughout the competitive European market, and increased overhead costs. In France, additional overhead charges were incurred for the start-up of the distribution centre. In the U.K., the significant re-engineering of the manufacturing facility and the opening of the distribution operation led to non-recurring factory costs.

Amortization expense from capital assets increased from $38.7 million in 1997 to $53.0 million in 1998. The increase resulted primarily from a full years inclusion of the 1997 acquisitions.

Selling, General and Administrative

Selling, general and administrative expenses increased from $58.2 million in 1997 to $74.2 million in 1998. The increase was principally attributable to incremental costs associated with the 1997 acquisitions. Integration savings were realized during 1998 but were mostly offset by increased IT costs associated with the conversion of IT systems to Year 2000 compliance, along with EDI enhancements and the implementation of computer systems in the U.K. and Spain. In addition, unfavourable foreign exchange costs due to the decline in the Canadian dollar in 1998 adversely impacted selling, general and administrative expenses. As a percentage of sales, selling, general and administrative expenses increased to 12% in 1999 as compared to 11% for 1997.

Research and Development

Research and development costs increased to $4.5 million in 1998 from $2.0 million in 1997. The increase in 1998 expenditures was primarily related to the technology improvements made to the DVD manufacturing process. These expenditures accounted for approximately 60% of the total and were incurred at the Company's research and development centre located at the DVD replication facility in Anaheim, California. The remaining 40% of expenses were incurred by Trace Optical in the form of enhancements to metallizing and spincoating technology. In January 1999, substantially all of the assets of Trace Optical were sold.

Goodwill

1998 earnings reflected the amortization of $5.2 million of goodwill, as compared to $2.9 million in 1997. The increase resulted from a full year of goodwill amortization relating to the 1997 acquisitions of Disc Manufacturing Inc., Cinram U.K. and Cinram Nederland.

Interest Expense

Interest expense increased from $8.7 million in 1997 to $16.5 million in 1998, reflecting a full year's inclusion of interest expense from the 1997 acquisitions of Disc Manufacturing Inc., Cinram U.K., Cinram España and Cinram Nederland, all of which were financed using external debt.

Investment Income

Investment income increased from $10.4 million in 1997 to $17.5 million in 1998 due to higher average cash balances, and an increase in yields on short-term money market instruments.

In 1998, both pre-tax and after tax earnings were reduced by a $6.2 million unrealized write-down of marketable securities to the lower of cost and market. The Company's marketable securities investment portfolio consists primarily of highly rated preferred shares and no common equities. Preferred shares provide investment income in the form of non-taxable dividends resulting in a lower effective income tax rate and higher after tax yields. Nevertheless, because of increased uncertainties, the Company began reducing its preferred share portfolio in 1998.

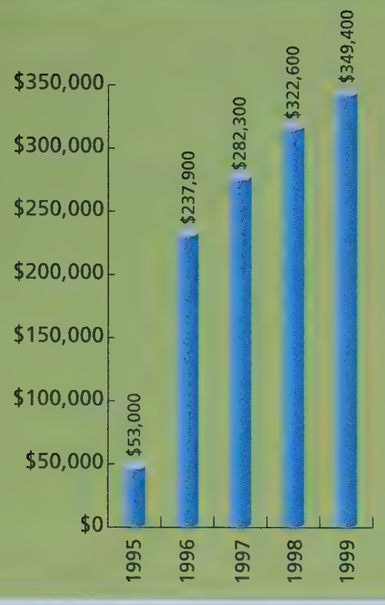
Income Taxes

The Company's overall effective tax rate increased from 32.6% in 1997 to 36.4% in 1998, as loss carryforwards from operations in France utilized in prior years were not available during 1998. With the 1995 acquisition of Cinram France West (formerly Video Pouce S.A.), available loss carryforwards were acquired. From 1995 to 1997, the Company used these tax losses to reduce income tax expense in those years. The total loss carryforwards acquired amounted to $24.0 million and for the years 1995 to 1997 inclusive, $16.3 million was utilized.

Reconciliation to United States Generally Accepted Accounting Principles

The financial statements have been prepared using accounting principles accepted in Canada. However, adjustments must be made to the financial results in order to conform to U.S. reporting requirements. Note 16 to the consolidated financial statements provides a reconciliation between Canadian and United States generally accepted accounting principles (GAAP).

Total Cash,
Cash Equivalents
and Marketable
Securities
(in $ thousands)



Earnings Before
Interest Expense,
Investment Income,
Unusual Items,
Income Taxes and
Amortization
(in $ thousands)

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 1999, cash, short-term investments and marketable securities totalled $349.4 million, up $26.8 million from $322.6 million at December 31, 1998.

The net cash balance, which consists of cash, cash equivalents and marketable securities less bank operating loans, long-term debt and capital lease obligations, increased to $94 million from $38 million in 1998. The Company's working capital position increased by $10.9 million to $208.2 million from $197.3 million in the prior year.

Cash flow from operations totalled $136.2 million, up from $92.3 million in 1998. The Company's EBITA (earnings before interest, taxes, amortization and unusual items) increased to $140.7 million in 1999 from $129.9 million in 1998, largely the result of improved efficiencies and better use of resources across operations.

Capital expenditures during 1999 increased to $70.5 million, from $59.6 million in 1998. In Canada, the Company continued to add state-of-the-art equipment to operations to reduce cycle times and increase capacity. Furthermore, DVD capacity was added, and new CD molding equipment was put in place.

In the U.S., DVD capacity was expanded to meet consumer demand. The Company also exercised its option to purchase the land and building at the Huntsville, Alabama site. In Mexico, CD capacity also was added during 1999, while in Europe, distribution facilities combined with CD and DVD capacity were added in the Netherlands.

RISKS AND UNCERTAINTIES

In the multimedia duplication/replication industry, technological innovation has always been a key to remaining competitive and today this is especially true as the pace of changes quickens and new technologies and formats emerge. Cinram's future performance hinges on its ability to invest in new technologies as current and future customers move beyond VHS and audio formats and into new areas such as DVD and even Internet-based channels.

Strategies for Managing Operational Risks

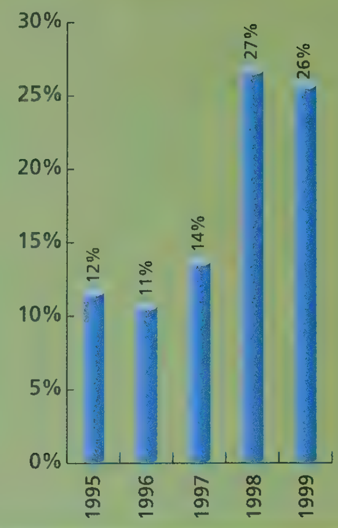
The industry continues to undergo tremendous consolidation. This consolidation represents the risk of losing customers to the competition as mergers forge new alignments, but these mergers also represent growth opportunities as firms unite and expand. Long-term supply agreements with major customers have traditionally minimized the operational risks faced by the Company.

Major companies continue to represent a significant portion of revenue for Cinram. In 1999, the five largest customers accounted for approximately 51% of consolidated revenue, up slightly from 50% in 1998. One customer accounted for approximately 26% of consolidated revenue during 1999, compared to 27% in 1998.

In today's global economy, Cinram, with an expanding customer base of 6,000, is well positioned to meet the growing needs of its international customers with facilities in Canada, the U.S., Europe and Latin America.

Customer Dependence
(% revenue)

% of sales to largest customer



Per Share Cash Flow from Operations
(in $ dollars)

Integration of services and IT systems, plus continuing enhancements to production and distribution capabilities, are improving flexibility, cutting response times and giving Cinram a competitive edge in servicing customers of all sizes. The Company considers itself one of the most cost-efficient players in the industry and is continuing efforts to move ahead with cutting edge equipment and streamlined processes that will help maintain a leadership position.

At the same time, increases in the cost of raw materials, such as plastics, pose the threat of reduced margins. If costs continue to increase, the result is a lower per-unit margin, since in most cases cost increases cannot be passed on to the customer. Cinram's vast purchasing power creates benefits through economies of scale that help offset this risk.

Changing Technologies

The Company believes that emerging distribution channels such as the Internet will boost the sale of CDs, videos and DVD in the next few years. The Internet will be a multichannel universe in terms of distribution of products. The risk that it will seriously displace the sale of physical product through digital downloading remains to be seen.

The Company intends to capitalize on the array of opportunities in both traditional products and services and in emerging sectors such as DVD and e-commerce. The Internet as a new distribution channel for retailing is expected to expand sales, with the number of shoppers ordering CDs from vast and growing Internet catalogs more than offsetting the sales impact of downloading onto the consumer's hard drive.

The future of physical product, despite the emergence of digital downloading, is healthy and should actually improve through e-commerce and the Internet's growing reach. It is clear that while more consumers are downloading music from the Internet, they are also continuing to buy at least as many music CDs as they have in the past and revenue from digital downloading is only expected to represent around 6% of online music sales by 2003.

Financing and Investments

Cinram's expansion into international markets means continued exposure to the risk of foreign currency fluctuations. In the past, the Company has taken steps to reduce this threat by hedging foreign exchange exposure using various financial instruments. The Company does not make any speculative currency transactions, nor does it purchase derivative instruments.

Significant investments continue to be made in short-term money markets, with the Company maintaining a conservative investment strategy. Investments are purchased on the basis that they can eventually be sold quickly with no significant discount to markets. Most money market investments mature within 60 days of the purchase date and, accordingly, Cinram's return will fluctuate with that of the market.

The Company's marketable securities investment portfolio consists primarily of highly rated preferred shares that offer a lower effective tax rate and higher after-tax yields. However, these investments do expose the Company to greater risks than typical short-term money market instruments.

OUTLOOK

Staying competitive in CD industry

The Company took steps to solidify its market position by adding new facilities and expanding capacity. Both CD and DVD capacity were added in Europe during 1999, providing greater diversification and less dependence on one product line such as VHS video cassettes.

The Company continues to expand the line of products that it offers to existing and future customers. CD production capacity was expanded at all five of Cinram's North American CD facilities during 1999. Efficiency has improved as a result of rationalization of production between plants. The Company also believes that it will maintain a competitive edge and healthy profit margins through vertical integration and the sharing of overhead costs over various product lines.

Emergence of DVD

Demand for the DVD format continues to grow. Cinram entered the DVD market in late 1997 and demand has steadily climbed. The market is expected to grow amid falling DVD player prices and increased availability of titles on disc. Cinram's strategy is to make DVD an increasingly significant segment of its business. To meet the needs of the quickly growing market, DVD capacity was added in Canada in 1999, and additional investment in this sector is planned, with a doubling of capacity in the U.S. In 1999, key projects included expansion of DVD capacity at the Anaheim plant plus establishment of state-of-the-art DVD replication capabilities in Europe and Canada.

Value Added Services

Integration of European facilities was completed in 1999 with the establishment of a "transparent manufacturing" policy that connects European facilities with the rest of Cinram's international operations through a sophisticated IT network. Cinram's multiplant network was several years in the making and now provides new levels of responsiveness and flexibility in meeting customers' demands.

With the growth of e-commerce, distribution capabilities will become even more crucial for Cinram in meeting the evolving needs of customers. IT systems, traditionally a provider of information to run the business, are now a leading driver of business within a "virtual factory" model, thanks to the Internet. A significant number of Cinram customers migrated from the traditional EDI systems to the Internet in 1999.

During 1999, the Company's newly formed e-commerce group launched its first customer based e-business solution which was made available to more than 150 leading customers. This Internet-based system provides fast, direct, real-time access to order, inventory and delivery information. Cinram continued to roll out and enhance customer distribution solutions in North America and Europe.

Year 2000

The Company experienced a smooth transition to the new year and there were no disruptions to mission critical systems. The Year 2000 program continues to be in effect; however, Cinram does not expect any disruptions will arise in the future.

Management's Responsibility for Financial Reporting

The Company's management is responsible for the information in this annual report and for the preparation of the financial statements. The financial statements have been prepared in accordance with general accepted accounting principles and include estimates considered necessary by management to fairly and consistently present the consolidated financial position of the Company.

Management maintains a system of internal accounting controls to provide reasonable assurance that assets are safeguarded and that transactions are authorized, recorded and reliable for preparing financial statements. The Company's independent auditors review these accounting controls to the extent they consider necessary and report their findings and recommendations to management and the audit committee.

The Board of directors carries out its responsibility for the consolidated financial statements principally through its Audit Committee. The Audit Committee, composed of three outside directors, meets with the independent auditors and reviews the consolidated financial statements prior to submission to the Board for approval.

Auditors' Report to the Shareholders

We have audited the consolidated balance sheets of Cinram International Inc. as at December 31, 1999 and 1998 and the consolidated statements of earnings and retained earnings and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1999 and 1998 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Canadian generally accepted accounting principles vary in certain significant respects from accounting principles generally accepted in the United States. Application of accounting principles generally accepted in the United States would have affected results of operations for each of the years in the two year period ended December 31, 1999 and shareholders' equity as at December 31, 1999 and 1998 to the extent summarized in note 16 to the consolidated financial statements.

KPMG LLP

Chartered Accountants

Richmond Hill, Canada
February 25, 2000

(Stated in thousands of Canadian dollars)

Consolidated Balance Sheets

As at December 31,	1999	1998
Assets		
Current assets:		
Cash and cash equivalents	$ 304,065	$ 198,333
Marketable securities (market value $45,325; 1998 – $124,230)	45,325	124,230
Accounts receivable	156,309	146,654
Inventories (note 2)	37,872	44,177
Prepaid expenses	3,956	8,589
	547,527	521,983
Capital assets (note 3)	241,574	253,806
Assets under capital lease (note 3)	27,894	35,957
Goodwill (net of accumulated amortization of $27,885; 1998 – $10,253)	19,332	39,837
Deferred foreign exchange	662	2,803
Other assets	5,862	2,388
	$ 842,851	$ 856,774

Liabilities and Shareholders' Equity		
Current liabilities:		
Bank operating loans (note 4)	$ 175,858	$ 40,916
Accounts payable and accrued liabilities	147,221	121,159
Income taxes payable	10,320	3,109
Dividends payable	1,241	1,176
Current portion of long-term debt (note 5)	2,246	155,290
Current portion of capital leases (note 6)	2,445	3,014
	339,331	324,664
Long-term debt (note 5)	54,102	58,149
Obligations under capital leases (note 6)	20,451	27,448
Deferred income taxes	15,547	13,450
Shareholders' equity:		
Capital stock (note 7)	248,803	242,508
Contributed surplus	–	23
Retained earnings	165,502	181,593
Foreign currency translation adjustment	(885)	8,939
	413,420	433,063
Commitments and contingent liabilities (notes 6 and 10)		
	$ 842,851	$ 856,774

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Isidore Philosophe
Director

Lewis Ritchie
Director

(Stated in thousands of Canadian dollars, except per share amounts)

Consolidated Statements of Earnings and Retained Earnings

Years ended December 31,	1999	1998
Net sales	$ 645,539	$ 642,714
Cost of goods sold	481,337	487,076
Gross profit	164,202	155,638
Selling, general and administrative expenses	71,804	74,222
Goodwill amortization	8,746	5,185
Research and development	1,565	4,490
	82,115	83,897
Earnings before interest expense, investment income, unusual items and income taxes	82,087	71,741
Interest expense on long-term debt	13,316	13,545
Interest expense on capital leases	1,131	1,745
Interest expense – other	1,579	1,199
Investment income	(16,753)	(17,450)
Write-down of marketable securities	3,320	6,150
Earnings before unusual items	79,494	66,552
Unusual items (note 8)	30,551	–
Earnings before income taxes	48,943	66,552
Provision for income taxes (note 9):		
Current	27,268	20,077
Deferred	2,331	4,172
	29,599	24,249
Net earnings	19,344	42,303
Retained earnings, beginning of year	181,593	144,037
Premium paid on common shares purchased for cancellation	(30,679)	–
Dividends declared	(4,756)	(4,747)
Retained earnings, end of year	$ 165,502	$ 181,593
Net earnings per share	$ 0.33	$ 0.71
Fully diluted net earnings per share	0.32	0.70

See accompanying notes to consolidated financial statements.

(Stated in thousands of Canadian dollars)

Consolidated Statements of Cash Flows

Years ended December 31,	1999	1998
Cash provided by (used in):		
Operations:		
Net earnings	$ 19,344	$ 42,303
Items not involving cash:		
Amortization	58,575	58,177
Write-down of carrying value of capital assets and goodwill	20,043	–
Write-down of marketable securities	3,320	6,150
Deferred income taxes	2,331	4,172
Gain on disposition of capital assets	(539)	(898)
Unrealized foreign exchange loss (gain)	(1,470)	3,744
Net change in non-cash working capital (note 12)	34,556	(21,336)
	136,160	92,312
Financing:		
Increase in bank operating loans	143,655	4,022
Increase (decrease) in long-term debt	(148,434)	14,450
Decrease in obligation under capital lease	(2,546)	(8,639)
Issuance of common shares	22,142	1,270
Purchase for cancellation of common shares	(46,549)	–
Dividends paid	(4,689)	(4,751)
	(36,421)	6,352
Investments:		
Decrease in marketable securities	75,584	56,530
Increase in marketable securities	–	(61,930)
Purchase of capital assets	(70,510)	(59,571)
Proceeds on disposition of capital assets	8,769	4,463
Increase in other assets	(3,474)	(8)
	10,369	(60,516)
Foreign exchange gain (loss) on cash held in foreign currencies	(4,376)	2,884
Increase in cash and cash equivalents	105,732	41,032
Cash and cash equivalents, beginning of year	198,333	157,301
Cash and cash equivalents, end of year	$ 304,065	$ 198,333
Supplemental cash flow information:		
Interest paid	$ 15,091	$ 15,061
Income taxes paid	21,974	28,942

See accompanying notes to consolidated financial statements.

1. Significant accounting policies:

(a) Basis of presentation:

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. The accounts of the joint ventures have been consolidated in the financial statements on a proportionate basis.

(b) Inventories:

Raw materials inventory is stated at the lower of cost, determined substantially on a first-in, first-out basis, and replacement cost. Finished goods and work-in-process inventories are stated at the lower of cost and net realizable value.

(c) Capital assets:

Capital assets are recorded at cost. Major renewals and improvements are capitalized, while maintenance and repairs are charged to operations as incurred. Gains or losses arising from the disposition of capital assets are reflected in net earnings.

Amortization is provided using the following methods and annual rates, commencing when the asset is entered into use:

Asset	Basis	Rate
Machinery and equipment	Straight line	10% – 33.3%
Furniture	Declining balance	20%
Computer equipment	Straight line	20%
Buildings	Straight line	2.5 – 5%
Leasehold improvements		Over term of lease

(d) Foreign currency translation:

Transactions in foreign currencies are translated into Canadian dollars at the exchange rate in effect on the transaction date. Monetary items expressed in foreign currencies are translated into Canadian dollars at the exchange rates in effect at the balance sheet date. The resulting exchange gains and losses are included in the determination of net earnings for the year.

Unrealized exchange gains and losses on long-term monetary items are deferred and included as deferred foreign exchange on the balance sheet and are being amortized over the term of the monetary item. To the extent that a long-term monetary item is considered to be a hedge of an investment, the unrealized exchange gain or loss is considered part of the foreign currency translation adjustment account included in shareholders' equity.

For self-sustaining foreign operations, all assets and liabilities are translated into Canadian dollars using period-end exchange rates and revenues and expenses are translated at average exchange rates. Gains and losses arising from the translation of the financial statements of self-sustaining foreign operations are deferred and included as a separate component of shareholders' equity.

Foreign exchange contracts are entered into as hedges against future revenues and purchases in foreign currencies. Accordingly, unrealized gains or losses on the contracts at year end are not reflected in earnings for the year.

(e) Research and development costs:

Development costs relating to specific projects that in the Company's view have a clearly defined future market are deferred and amortized based on production. All other research and other developments costs, net of investment tax credits, are charged to earnings in the period in which they are incurred.

(f) Goodwill:

Goodwill is amortized on a straight-line basis over five to ten years. Management re-evaluates the continuing value of goodwill annually, based on their estimated future cash flows, and any permanent impairment in the value of goodwill is written off to earnings.

(g) Marketable securities:

Marketable securities are carried at the lower of cost or market.

(h) Statement of cash flows:

Effective January 1, 1999, the Company adopted, retroactively, the new recommendations of The Canadian Institute of Chartered Accountants Statement of Cash Flows. As a result, this change has revised the definition of cash and cash equivalents to include only cash and highly liquid investments. The comparative figures in the statement of cash flows have been restated.

(Amounts in thousands of Canadian dollars, except common shares and per share information)

For the purposes of the statement of cash flows, the Company considers all highly liquid investment instruments purchased with a maturity of three months or less to be cash equivalents.

(i) Stock-based compensation plan:

The Company has one stock-based compensation plan, which is described in note 7. No compensation expense is recognized for the plan when stock or stock options are issued to employees. Any consideration paid by employees on exercise of stock options or purchase of stock is credited to share capital. If stock or stock options are repurchased from employees, the excess of the consideration paid over the carrying amount of the stock or stock option canceled is charged to retained earnings.

(j) Accounting estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

(k) Comparative figures:

Certain of the 1998 figures presented for comparative purposes have been reclassified to conform with the current year's presentation.

2. Inventories:

	1999	1998
Raw materials	$ 28,891	$ 28,979
Work in process	3,693	5,882
Finished goods	5,288	9,316
	$ 37,872	$ 44,177

3. Capital assets:

			1999	1998
	Cost	Accumulated amortization	Net book value	Net book value
Land	$ 12,284	$ –	$ 12,284	$ 13,637
Buildings	40,812	10,541	30,271	28,482
Machinery and equipment	397,172	233,183	163,989	177,083
Leasehold improvements	22,067	9,024	13,043	10,045
Computer equipment	9,475	6,513	2,962	3,265
Furniture	20,029	14,182	5,847	6,589
Construction in progress	13,178	–	13,178	14,705
	$ 515,017	$ 273,443	$ 241,574	$ 253,806

Assets under capital lease:

			1999	1998
	Cost	Accumulated amortization	Net book value	Net book value
Land	$ 3,325	$ –	$ 3,325	$ 4,110
Buildings	28,445	6,210	22,235	28,474
Machinery and equipment	5,748	3,414	2,334	3,373
	$ 37,518	$ 9,624	$ 27,894	$ 35,957

The assets under capital lease are being amortized on a straight-line basis over their anticipated economic life which is twenty years for building, four years for machinery and equipment and three years for computer equipment.

4. Bank operating loans:

Bank operating loans consist of demand loans payable in French Francs, Dutch Guilders and U.S. dollars, bearing interest at varying market rates between 4% and 5.7% (1998 – 4.0% and 5.7%) and are secured by certain accounts receivable and inventories.

5. Long-term debt:

Long-term debt can be summarized as follows:

	1999	1998
£9,000 due December 2002, unsecured, bearing interest at 7.405%	**$ 21,042**	$ 22,856
U.S. $20,000 due November 2002, unsecured, bearing interest at 6.403%	**28,894**	30,620
U.S. $10,000 due December 1999, unsecured, bearing interest at 6.605%	–	15,310
U.S. $30,000 due December 1999, unsecured, bearing interest at 6.28%	–	45,930
U.S. $50,000 due December 1999, unsecured, bearing interest at 6.84%	–	76,550
U.S. $10,000 due December 1999, unsecured, bearing interest at 6.025%	–	15,310
Other	**6,412**	6,863
	56,348	213,439
Less current portion	**2,246**	155,290
	$ 54,102	$ 58,149

Interest costs on other long-term debt vary between 3.3% and 9.65% (1998 – 3.875% and 9.7%). Other long-term debts are secured by certain assets of a wholly-owned subsidiary, Cinram France West, consisting of accounts receivable, land and buildings.

Future minimum repayments of long-term debt are as follows:

2000	$ 2,246
2001	2,476
2002	50,920
2003	706
	$ 56,348

6. Commitments:

Future minimum rental commitments for all non-cancellable operating and capital leases, including those with related parties as disclosed in note 11, as at December 31, 1999 are as follows:

	Capital	Operating	Total
2000	$ 3,852	$ 1,474	$ 5,326
2001	3,367	953	4,320
2002	8,944	404	9,348
2003	1,857	27	1,884
2004 and thereafter	11,466	–	11,466
	29,486	$ 2,858	$ 32,344
Less interest	6,590		
	22,896		
Less current portion	2,445		
	$ 20,451		

(Amounts in thousands of Canadian dollars,
except common shares and per share information)

The Company is also committed to purchase $19,100 of machinery and equipment from one vendor at any point over the next four years ending December 31, 2004.

7. Capital stock:

The authorized capital stock of the Company consists of an unlimited number of common shares and an unlimited number of preference shares. Capital stock issued and outstanding at December 31, 1998 and 1999 includes the following:

	Common shares	Warrants	Amount
Balance outstanding, December 31, 1997	59,275,790	–	$ 241,238
Options exercised for cash	133,906	–	814
Shares issued in lieu of compensation	20,730	–	456
Balance outstanding, December 31, 1998	59,430,426	–	242,508
Options exercised for cash	9,000	–	42
Shares and warrants issued for cash	1,700,000	1,700,000	22,100
Shares cancelled under share buyback	(3,910,500)	–	(15,847)
Balance outstanding, December 31, 1999	57,228,926	1,700,000	$ 248,803

In each year presented, the common shares have been adjusted to reflect the 2-for-1 share split which occurred on February 27, 1998. During 1999, the Company issued 1,700,000 units by private placement at $13 per unit, each unit comprising one Cinram common share and one warrant to acquire an additional Cinram common share at $15 over a four year period.

Stock-based compensation plans:

At December 31, 1999, the Company has one stock based compensation plan, which is described as follows:

Employee Stock Option Plan:

Under the employee stock option plan, the Company may grant options to employees, officers and directors of the Company for up to 4,000,000 common shares. The exercise price of each option equals the market price of the Company's stock on the date of the grant and an option's maximum term is 10 years. The options vesting period ranges from three years to five years.

A summary of the status of the Company's Employee Stock Option Plan as at December 31, 1999 and 1998, and changes during the years ending on those dates is presented below:

	1999		1998	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Outstanding, beginning of year	1,637,502	$ 13.36	1,480,908	$ 10.96
Granted	318,500	11.85	304,500	22.00
Exercised	(9,000)	4.625	(133,906)	6.08
Forfeited	(121,000)	18.81	(14,000)	17.11
Outstanding, end of year	1,826,002	12.78	1,637,502	13.36
Options exerciseable, end of year	1,005,703	9.81	867,803	8.22

The following table summarizes information about the Employee Stock Options at December 31, 1999:

	Options outstanding			Options exerciseable	
Range of exercise price	Options outstanding	Weighted average remaining contractual life	Weighted average exercise price	Options exerciseable	Weighted average exercise price
$ 4.00 – 10.00	672,002	4.9 years	$ 5.94	672,003	$ 5.94
$10.00 – 15.00	315,500	9.3 years	11.85	–	11.85
$15.00 – 20.00	579,000	7.0 years	17.10	281,800	16.82
$20.00 – 22.00	259,500	8.5 years	22.00	51,900	22.00
$ 4.00 – 22.00	1,826,002	6.9 years	$ 12.78	1,005,703	$ 9.81

Basic and fully diluted net earnings per share have been calculated using the weighted average and maximum dilutive number of shares outstanding during the year which amounted to 58,700,516 (1998 – 59,387,288) and 62,347,517 (1998 – 61,024,789), respectively. For the purpose of calculating fully diluted earnings per share, an assumed rate of return of 3% was used, resulting in $868 of imputed income.

8. Unusual items:

During the fourth quarter, the Company recorded unusual items as follows:

Provision for restructuring (a)	$ 10,508
Write-down of carrying value of capital assets and goodwill (b)	20,043
	$ 30,551

(a) During 1999, management decided to restructure its European operations. This resulted in the Company recording a restructuring charge, principally for employee severance and other contract cancellation costs. All amounts are included in accrued expenses at December 31, 1999.

(b) In addition, management conducted a review of the carrying values of its capital assets and goodwill. This review resulted in write-downs to both categories of assets, based on reductions in estimated future cash flows from European assets.

9. Income taxes:

Income tax expense varies from the amount that would be computed by applying the basic combined federal and provincial rate of 44.6% as follows:

	1999		1998	
Basic rate applied to pretax income	$ 21,829	44.6%	$ 29,696	44.6%
Increase (decrease) in taxes resulting from:				
Manufacturing and processing reduction	(2,594)	(5.3)	(3,510)	(5.3)
Losses in foreign subsidiaries	1,286	2.6	740	1.1
Provision for restructuring not deductible	4,687	9.5	–	–
Write-down of carrying value of capital assets and goodwill not deductible	8,937	18.3	–	–
Tax rates in other jurisdictions	(1,754)	(3.6)	(2,003)	(3.0)
Other items	(2,792)	(5.7)	(674)	(1.0)
	$ 29,599	60.4%	$ 24,249	36.4%

(Amounts in thousands of Canadian dollars
except common shares and per share information)

As a result of the 1995 acquisition of Cinram France West (formerly Video Pouce, S.A.), the Company acquired deductions available to reduce future years' taxable income. No portion of the purchase price was assigned to these available deductions. As at December 31, 1998, the Company had aggregate timing differences of FF 32,000 representing unrecognized deductions available to reduce future years' taxable income in Cinram France West. During 1999, the French taxation authorities performed a tax inspection with respect to fiscal years 1993 and 1994. Based on the tax assessment received, FF 29,700 of the tax losses acquired as part of the 1995 acquisition of Cinram West have been disallowed by the tax authorities. The benefit of the remaining FF 2,300 deductions will not be recorded until realized. During the current year, the Company generated tax losses available for carryforward in both France and Spain. No benefit has been established in relation to these losses as there is uncertainty that the Company will be able to utilize these losses in the future.

10. Contingent liabilities:

The Company is involved in various legal actions that are normal to the Company's business. In the opinion of the Company, any resulting liability is not expected to have a material adverse effect on the Company's financial position or its results.

11. Related party transactions:

The Company leases certain premises from three companies owned by certain shareholders of Cinram International Inc. and their families. Future minimum lease payments under this lease amount to $760 per annum. This lease was at a market rate at its inception.

12. Net change in non-cash working capital:

	1999	1998
Accounts receivable	$ (9,655)	$ (13,131)
Inventories	6,305	(5,822)
Prepaid expenses	4,633	6,498
Accounts payables and accrued liabilities	26,062	193
Income taxes payable	7,211	(9,074)
	$ 34,556	$ (21,336)

13. Segmented information:

The Company has two reportable business segments, being audio/ROM replication/duplication and video duplication.

The audio replication segment produces audio cassettes, CD's and CD-ROMs and the video duplication segment manufactures video cassettes. DVD segmented information is included in other.

The Company's reportable geographic segments which account for greater than 10% of consolidated sales in 1999 include Canada and the United States.

The accounting policies of the segments are the same as those described in the summary of accounting policies. The Company evaluates segment performance based on earnings before interest expense, investment income, unusual items and income taxes.

In 1999, the Company was dependent on one customer for approximately 26% of consolidated revenue from the two main business segments.

Industry segments:

1999	Audio/ROM replication/ duplication	Video duplication	Other	Total
Revenues from external customers	$ 349,944	$ 271,147	$ 24,448	$ 645,539
Earnings before interest expense, investment income, unusual items and income taxes	56,523	22,403	3,161	82,087
Total assets	452,350	358,484	32,017	842,851
Amortization	28,308	28,705	1,562	58,575
Capital expenditures	45,869	11,942	12,699	70,510

1998	Audio/ROM replication/ duplication	Video duplication	Other	Total
Revenues from external customers	$ 311,431	$ 303,772	$ 27,511	$ 642,714
Earnings before interest expense, investment income, unusual items and income taxes	41,643	30,446	(348)	71,741
Total assets	385,118	430,971	40,685	856,774
Amortization	26,188	28,391	3,598	58,177
Capital expenditures	28,430	29,963	1,178	59,571

Geographic segments:

1999	**Canada**	**United States**	**United Kingdom**	**France**	**Other**	**Total**
Revenues from external customers	**$ 172,679**	**$ 283,828**	**$ 60,659**	**$ 64,441**	**$ 63,932**	**$ 645,539**
Total assets	**430,990**	**251,691**	**47,941**	**66,772**	**45,457**	**842,851**

1998	Canada	United States	United Kingdom	France	Other	Total
Revenues from external customers	$ 177,169	$ 251,887	$ 71,440	$ 67,186	$ 75,032	$ 642,714
Total assets	391,655	229,997	58,903	82,132	94,087	856,774

14. Financial instruments:

The carrying value of cash and cash equivalents, marketable securities, accounts receivable, bank operating loans, accounts payable and accrued liabilities and dividends payable approximates fair value because of the short maturity of these financial instruments. The carrying value of long-term debt and obligations under capital leases which have variable interest rates based on market rates approximates fair value of those financial instruments. The fair value of the Company's other long-term debt and obligations under capital leases was based on the amount of future cash flows associated with each instrument discounted using borrowing rates currently available for similar debt instruments of similar maturity. The aggregate fair value of the Company's total long-term debt and obligations under capital leases was:

December 31, 1999	$ 79,047
December 31, 1998	245,036

The Company enters into forward foreign exchange contracts to hedge its foreign currency exposure. The contracts oblige the Company to purchase foreign currencies in the future at predetermined exchange rates. The contracts are matched with anticipated future purchases in foreign currencies.

While there were no open forward foreign exchange contracts at December 31, 1999, forward foreign exchange contracts which had become favourable to the Company since their inception constitute unrecognized financial assets with a fair value as at December 31, 1998 of $23.

(Amounts in thousands of Canadian dollars, except common shares and per share information)

15. Joint ventures:

The Company's proportionate share of the total assets, liabilities and results of operations of joint ventures as at and for the years ended December 31, 1999 and 1998, recorded in the consolidated financial statements of the Company, are as follows:

	1999	1998
Total assets	$ 11,136	$ 6,998
Total liabilities	5,369	3,288
Revenues	15,925	9,773
Operating costs and expenses	14,254	8,839
Operating income before income taxes	1,128	934

Cash provided by (used in) operating, financing and investing activities (excluding non-cash activities) of joint ventures were as follows:

	1999	1998
Cash provided by operating activities	$ 109	$ 789
Cash provided by financing activities	888	–
Cash used in investing activities	(1,505)	(345)

16. Reconciliation between Canadian and United States generally accepted accounting principles (GAAP):

The financial statements of the Company have been prepared in accordance with generally accepted accounting principles (GAAP) in Canada. These principles conform in all material respects to those in the United States except for the following:

	1999	1998
Net income as shown in the financial statements	$ 19,344	$ 42,303
Description of items having the effect of increasing (decreasing) reported income:		
Deferred income taxes (i)	(2,480)	1,467
Reversal of restructuring reserves(ii)	(1,902)	(3,828)
Amendment of goodwill amortization (ii)	550	191
Amendment of goodwill amortization (iii)	310	310
Deferred foreign exchange (iv)	1,315	1,233
Incentive payment (v)	(3,013)	–
Provision for restructuring (vi)	10,508	–
Write-down of marketable securities (vii)	2,448	6,150
Loss on foreign currency contracts (ix)	(14)	(156)
Net income according to generally accepted accounting principles in the United States	27,066	47,670
Valuation reserve for "available for sale" securities	(2,448)	(6,150)
Foreign currency translation adjustment	(9,824)	9,291
Comprehensive income according to generally accepted accounting principles in the United States	$ 14,794	$ 50,811
Earnings per share (dollars) under U.S. accounting principles:		
Basic	$ 0.25	$ 0.86
Diluted	0.24	0.84
Weighted average shares outstanding:		
Basic	58,700,516	59,387,288
Diluted	60,787,748	60,295,602

(i) Statement of Financial Accounting Standards (SFAS) 109 became mandatory under U.S. GAAP effective January 1, 1993, changing the accounting for deferred income taxes from the deferred method (APB #11) to an asset and liability method. Previously U.S. companies deferred the past tax effects of timing differences between financial reporting and taxable income. The asset and liability method requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between tax basis and financial reporting basis of the assets and liabilities. Canadian GAAP remains with the deferral method.

The impact of implementation of FAS 109 upon the balance sheets at December 31, 1999 and 1998 would be to increase the deferred tax liability – non-current by $7,068 and $3,826, respectively, to establish a deferred tax asset current of $6,934 and $6,170, respectively, with a corresponding increase (decrease) in reported retained earnings by ($134) and $2,344, respectively. In the opinion of management, it is more likely than not that the results of future operations will generate sufficient taxable income to realize the deferred tax assets.

(ii) As part of the cost of one of the acquisitions in a prior year, the Company established a reserve to cover the anticipated costs of closing a newly acquired plant. During 1998 management decided to amend restructuring plans and not to close the plant, and as a result a portion of the reserve was reversed into 1998 income. During 1999, management once again amended restructuring plans and accordingly the remaining reserve was reversed into 1999 income. Under U.S. GAAP, the reserve would have been reversed against goodwill recorded on the original acquisition. As a result, under U.S. GAAP 1999 and 1998 selling, general and administrative expenses would have been increased by $1,902 and $3,828, respectively, and goodwill amortization would have been reduced by $550 and $191, respectively, and net income reduced by $1,352 and $3,637, respectively, while retained earnings would be reduced by $4,989 (1998 – $3,637).

(iii) During 1995, the Company acquired Cinram France West (formerly Video Pouce, S.A.), which had available significant tax losses. Under U.S. GAAP, the entire future benefit of the tax losses would be set up as a deferred tax asset upon acquisition.

A deferred tax asset and valuation reserve would have been estimated at date of acquisition of Cinram France West, relating to the losses acquired, as the Company was unsure at the time of the acquisition whether it would be able to utilize the losses before expiry. In 1999 and 1998, the Company did not utilize any of the losses existing at the date of acquisition. In years prior to 1998, the Company utilized tax losses and recorded the benefit as a reduction of income tax expense.

Under U.S. GAAP the valuation reserve would have been reduced for any tax losses utilized and this reduction would be applied to reduce goodwill rather than a reduction to income tax expense. As a result, under U.S. GAAP, goodwill and retained earnings would have been reduced by $4,617 (1998 – $4,617) in respect of these tax losses, less the impact of reduced amortization of recorded goodwill.

(iv) In 1998, the long-term debt was designated a hedge of foreign investment. However prior to this, unrealized exchange gains and losses on long-term monetary items were deferred and included as deferred foreign exchange on the balance sheet. As a result, net earnings include a charge of $2,141 (1998 – $2,008) less related income tax effects of $826 (1998 – $775). Under U.S. GAAP, the entire foreign exchange loss would have been recognized in the prior year. At December 31, 1999, $662 of unamortized deferred foreign exchange remained on the balance sheet.

(v) During 1999, the Company established a deferred expense of $6,000 relating to a payment to a customer as an incentive to sign a long-term contract. As of December 31, 1999, $979 of this amount was amortized against income and $5,021 remains on the balance sheet as a deferred charge, included in other assets. Under U.S. GAAP, the full amount would have been expensed. As a result, U.S. GAAP selling, general and administrative expenses would have increased by $5,021, income tax expense would have decreased by $2,008, deferred income tax asset would have increased by $2,008 and net income and retained earnings reduced by $3,013.

(vi) During 1999, the Company recorded a charge for unusual items relating to its European operations. The unusual item charge includes a provision for restructuring of $10,508 and a write-down of carrying value of capital assets and goodwill of $20,043. The provision for restructuring consists of severance costs to be incurred across all staff levels, including direct, indirect and fixed labour at the European facilities. Also included are penalty fees in respect of certain contract cancellation costs. Under U.S. GAAP, management's restructuring provision relating to these costs can only be recognized as a liability once certain criteria have been met which are not required for Canadian GAAP purposes, including the employees having been notified and severance benefits communicated to all employees. As these conditions were not met by December 31, 1999, both U.S. GAAP net income and retained earnings would have increased by $10,508. This entry would not have a related tax effect as a full valuation reserve would be required.

(Amounts in thousands of Canadian dollars, except common shares and per share information)

(vii) During 1999, the Company wrote down its marketable securities to market value, to recognize a temporary decline in value. Under U.S. GAAP, available for sale securities are marked to market with unrealized gains and losses flowing into equity. Under U.S. GAAP, net income and retained earnings would have been greater by $2,448 (1998 – $6,150) while a debit would have formed a separate component of shareholders' equity amounting to $3,320 (1998 – $615). This entry would not have a related tax expense as the loss is a capital loss, available only for offset against capital gains.

(viii) Under U.S. GAAP, interest must be capitalized on construction in progress, whereas in Canada such capitalization is not mandatory. The Company has not capitalized any interest in either 1999 or 1998. Therefore under U.S. GAAP, interest expense would have been reduced by an immaterial amount in both 1999 and 1998 cumulatively.

(ix) Under Canadian GAAP, forward exchange contracts can be designated as a hedge of a future cash flow stream, and as such are not accounted for until maturity. Under U.S. GAAP, such treatment is only acceptable if the future stream represents a firm commitment at the period end, which is not the case in this instance. As a result under U.S. GAAP, selling, general and administrative expenses would have been increased by $23 (1998 – $248), income tax expense would have increased by $9 (1998 – $92) and net income and retained earnings would have been reduced by $14 (1998 – $156).

(x) Under U.S. GAAP, research and development costs are expensed as incurred, while in Canada they are capitalized under certain circumstances. There is no impact on reported earnings, as the Company has not capitalized any of these expenses.

(xi) Under U.S. GAAP, the Company would not be permitted to include a subtotal in the statement of earnings at the level "earnings before unusual items".

Income tax expense under U.S. GAAP for the years ended December 31, 1999 and 1998 can be analyzed as follows:

	1999	1998
Canadian income tax	$ 11,944	$ 13,515
Foreign income tax	17,310	11,518
	$ 29,254	$ 25,033

Marketable securities:

Substantially all marketable securities are debt instruments with due dates within the next three years or preference shares. The investments would be categorized as available for sale under U.S. GAAP.

Purchases of securities amounted to nil in 1999 (1998 – $61,930)

Maturities of securities amounted to $75,584 in 1999 (1998 – $56,530)

Recent accounting pronouncements issued but not adopted:

(i) The Canadian Institute of Chartered Accountants ("CICA") issued a new accounting standard for income taxes, effective for fiscal year 2000. This standards will essentially harmonize Canadian corporate income tax accounting with the standards in the United States. The standard will require adoption of the liability method whereby the measurement of future income tax assets and liabilities would be at the tax rates expected to apply when the asset is realized or the liability settled. The effect of the adoption of this new standard is currently being assessed.

(ii) The CICA issued a new accounting standard for employee future benefits, effective for fiscal year 2000. This standard will essentially harmonize Canadian accounting standards for employee future benefits with the standards in the United States. For pension benefits, the new standard will require the use of current market rates to estimate the present value of the pension liability. As well, any substantive commitment to provide future benefits must be accrued. For employee future benefits other than pensions, the new standard will require the recognition of employer's expected cost and obligation of providing post-retirement benefits mainly health costs and life insurance, as employees earn the entitlement to benefits. The calculation of the obligation is similar to pensions in that it is actuarially based. The impact on the Company's consolidated financial statements and method of adoption are currently being assessed.

11 Year Financial Summary

Years ended December 31,	1999	1998	1997	1996
INCOME STATEMENT				
Net sales	645,539	642,714	513,260	340,718
Sales growth in %	0%	25%	51%	26%
Cost of sales	481,337	487,076	389,279	256,111
Gross Profit before amortization	222,777	213,815	165,606	103,234
Gross profit % before amortization	35%	33%	32%	30%
Amortization	58,575	58,177	41,625	18,627
Gross Profit	164,202	155,638	123,981	84,607
Gross Profit as a % of sales	25%	24%	24%	25%
Selling, general and administrative expenses	71,804	74,222	58,213	33,444
Goodwill amortization	8,746	5,185	2,928	1,257
Selling, general and administrative expenses as a % of net sales	11%	12%	12%	10%
Research and development expenses	1,565	4,490	2,003	2,303
EBITA (earnings before interest expense, investment income, unusual items, income taxes, and amortization)	140,662	129,918	102,462	66,230
EBITA %	22%	20%	20%	19%
EBIT (earnings before interest expense, investment income, unusual items and income taxes)	82,087	71,741	60,837	47,603
EBIT %	13%	11%	12%	14%
Interest expense	16,026	16,489	8,738	3,095
Investment income	16,753	17,450	10,374	3,931
Unusual Items	30,551	-	-	-
Income tax expense	29,599	24,249	20,339	17,248
Net earnings	19,344	42,303	42,134	31,191
Basic EPS *	0.33	0.71	0.74	0.65
Fully diluted EPS *	0.32	0.70	0.73	0.63

* *per share data based on 3 for 1 stock split July 1987, 2 for 1 stock split June 1993 and 2 for 1 stock split February 1998*

(stated in thousands of dollars, except per share data)

1995	1994	1993	1992	1991	1990	1989
270,081	144,771	113,519	86,124	67,766	45,812	41,969
87%	28%	32%	27%	48%	9%	5%
205,549	103,902	84,984	60,201	50,437	35,429	33,537
81,371	50,308	38,586	32,534	22,062	14,279	11,276
30%	35%	34%	38%	33%	31%	27%
16,839	9,439	10,051	6,611	4,733	3,896	2,844
64,532	40,869	28,535	25,923	17,329	10,383	8,432
24%	28%	25%	30%	26%	23%	20%
28,296	18,036	10,035	9,849	7,570	5,071	3,429
765	-	-	-	-	-	-
11%	12%	9%	12%	11%	11%	8%
1,953	1,958	1,827	3,309	876	-	1,356
50,357	30,314	26,724	19,376	13,882	9,208	6,491
19%	21%	24%	22%	20%	20%	15%
33,518	20,875	16,673	12,765	9,149	5,312	3,647
12%	14%	15%	15%	14%	12%	9%
2,120	-	-	-	-	-	-
3,742	2,309	1,788	2,630	1,432	2,166	1,162
-	-	-	-	-	-	-
12,149	5,187	4,941	5,611	3,382	1,362	953
22,991	17,997	13,520	9,784	7,199	6,116	3,856
0.51	0.41	0.31	0.23	0.19	0.16	0.11
0.49	0.40	0.31	0.22	0.19	0.16	0.11

11 YEAR COMPARATIVE BALANCE SHEET

Years ended December 31,	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
BALANCE SHEET											
Current ratio	**1.61**	1.61	2.65	3.14	1.49	2.32	2.55	2.53	4.41	3.31	4.16
Debt to equity ratio*	**1.04**	0.98	1.01	0.37	0.85	0.42	0.37	0.39	0.28	0.40	0.37
Debt to assets ratio*	**0.51**	0.49	0.50	0.27	0.46	0.29	0.27	0.28	0.22	0.29	0.27
Equity to assets ratio	**0.49**	0.51	0.50	0.73	0.54	0.71	0.73	0.72	0.78	0.71	0.73
Accounts receivable turnover**	**4**	5	5	5	6	7	8	8	10	9	8
Days sales in accounts receivable**	**86**	80	75	78	63	50	43	45	37	39	45
Inventory turnover***	**12**	12	13	11	13	13	12	9	9	10	13
Days sales in inventory***	**31**	31	29	32	27	28	30	41	41	37	28
Asset turnover****	**0.78**	0.79	0.71	0.73	1.09	1.06	1.04	0.89	0.86	0.87	0.98
Return on equity *****	**5%**	10%	12%	13%	19%	20%	18%	15%	15%	18%	14%
Return on total assets ******	**2%**	5%	7%	9%	12%	14%	13%	11%	11%	13%	9%

** consists of current and long-term liabilities including deferred income taxes*

*** two year average accounts receivable*

**** two year average inventory*

***** total assets excluding intangible assets*

****** two year average equity*

******* two year average total assets*

SUMMARY OF QUARTERLY RESULTS

(Stated in thousands of Canadian dollars, except per share data)

(Years ending December 31)

Quarter	Sales		Net Earnings		Per Share	
	1999	1998	**1999**	1998	**1999**	1998
First	**$ 136,729**	$ 126,072	**$ 5,833**	$ 2,795	**$ 0.10**	$ 0.05
Second	**$ 127,970**	$ 132,965	**$ 6,346**	$ 6,313	**$ 0.11**	$ 0.11
Third	**$ 160,381**	$ 175,138	**$ 14,173**	$ 12,666	**$ 0.24**	$ 0.21
Fourth	**$ 220,459**	$ 208,539	**$ (7,008)**	$ 20,529	**$ (0.12)**	$ 0.34
Year	**$ 645,539**	$ 642,714	**$ 19,344**	$ 42,303	**$ 0.33**	$ 0.71

Share Trading Information

Trading of Common Shares: CRW*

(volume in thousands of shares)

Years ended December 31,	Quarter		High		Low		Closing	Volume
1999**	**First**	**$**	**21.50**	**$**	**14.00**	**$**	**14.20**	**9,249**
	Second	**$**	**14.50**	**$**	**11.60**	**$**	**14.30**	**16,067**
	Third	**$**	**14.10**	**$**	**11.80**	**$**	**12.20**	**9,853**
	Fourth	**$**	**13.00**	**$**	**8.65**	**$**	**11.75**	**10,238**
	Year	**$**	**21.50**	**$**	**8.65**	**$**	**11.75**	**45,406**
1998**	First	$	26.85	$	20.80	$	20.90	17,819
	Second	$	23.50	$	19.50	$	21.50	11,297
	Third	$	23.80	$	15.00	$	17.00	5,409
	Fourth	$	19.75	$	14.25	$	18.60	10,519
	Year	$	26.85	$	14.25	$	18.60	45,044
1997**	First	$	20.25	$	17.03	$	17.50	6,478
	Second	$	19.25	$	15.60	$	17.50	9,884
	Third	$	28.00	$	17.50	$	27.25	9,278
	Fourth	$	29.00	$	22.50	$	24.50	9,016
	Year	$	29.00	$	15.60	$	24.50	34,656
1996**	Year	$	18.98	$	10.88	$	18.75	31,400
1995**	Year	$	13.00	$	5.19	$	12.57	23,004

* *The Toronto Stock Exchange and the Montreal Exchange only. NASDAQ pricing and volume is not included since activity has been insignificant.*

** *Based on 2 for 1 stock split February 1998*

Stock Exchanges

The Toronto Stock Exchange	(Symbol: CRW)
Nasdaq	(Symbol: CNRM)

Common Shares

(Outstanding at December 31, 1999)

Basic	58,700,516
Fully diluted	62,347,517
Current annual dividend per share:	$0.08

Closing Price of Shares

(December 31, 1999)

The Toronto Stock Exchange	$11.75
Nasdaq	(US)$8.06

Volume of Shares Traded

Two years ended December 31, 1999 and 1998

	1999	1998
The Toronto Stock Exchange	40,922,000	41,000,000
The Montreal Exchange	4,484,000	4,044,000

Shareholder Information

ADDITIONAL INFORMATION

Shareholders may contact the Company for more information or questions concerning their shares. For information on and assistance with matters such as share transfers, dividend cheques and change of address, please contact the Transfer Agent.

DIVIDEND PAYMENTS

In 2000, the Company declared an annual dividend of $0.08 per common share, payable quarterly on the basis of $0.02 per share.

DIVIDEND POLICY

Cinram's long-term strategic objective is to secure above average capital growth for its shareholders. Cinram retains most of its earnings to maximize expansion opportunities.

FORM 40F

The Annual Report on Form 40F is filed with the United States Securities and Exchange Commission. This report will be made available to shareholders, without charge, upon written request to the Secretary of Cinram, at the corporate office.

ANNUAL MEETING

The Annual General Meeting of Shareholders will be held at 4:00 p.m. on Wednesday June 14, 2000 at the TSE Conference Centre, 130 King Street West, Toronto, Ontario, Canada M5X 1E1

REGISTRAR AND TRANSFER AGENT

Montreal Trust Company of Canada
151 Front Street West, 8th Floor
Toronto, Ontario, M5J 2N1

SHAREHOLDERS' CALENDAR

Fiscal year end	December 31,
Fiscal quarter ends	March 31, June 30, September 30 and December 31

DIVIDEND DATES

Record	June 15, September 15, December 15, and March 15
Payment	June 30, September 30, December 31, and March 31

Directors and Officers

ISIDORE PHILOSOPHE
Director, Chairman and Chief Executive Officer

WILLIAM GREENHALGH
President and Chief Operating Officer

JACQUES PHILOSOPHE
Director and Executive Vice-President, Operations

LEWIS RITCHIE, C.A.
Director, Executive Vice-President Finance and Administration, Chief Financial Officer and Secretary

DAVID RUBENSTEIN
President, U.S. Operations

JAIME OVADIA
President, Cinram Latinoamericana S.A. de C.V.

MARCEL TUCHNER
Executive Vice-President, Manufacturing and Engineering

KATHLEEN CARTWRIGHT
Vice-President, Human Resources

GARSON HOFFMAN
Vice-President, e-Business Development

HENRI A. ABOUTBOUL•
Director
Managing Director, Chemicals
Waste Management International

LAWRENCE S. BLOOMBERG▪•
Director
Co-Chairman and Co-Chief Executive Officer,
National Bank Financial

NORMAN MAY, Q.C.▪
Director
Partner, Fogler, Rubinoff LLP

HELEN MURPHY
Director
Chief Financial and Administrative Officer,
Martha Stewart Living, Omnimedia Inc.

PETER G. WHITE▪•
Director
Executive Vice President, Argus Corporation

▪ Member of Audit Committee
• Member of Compensation Committee

Corporate Directory

CORPORATE HEAD OFFICE

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PRINCIPAL OPERATIONS

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THE AMAZING VIDEO NETWORK
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Fax (31) 33-450-2802

Judged by the Canadian Institute of Chartered Accountants (CICA), the Canadian Investor Relations Institute (CIRI) and the Toronto Society of Financial Analysts (TSFA), Cinram received Gold Awards in the High Tech sector for the Company's 1997 and 1998 Annual Reports.

cinram

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